

Police and Crime Panel

3rd March 2016

Revenue & Capital Budgets 2016/17
Medium Term Financial Plan 2016/17 to 2019/20
Revenue & Capital Budgets 2015/16



Report of the PCC Chief Finance Officer

Purpose of report

1. The purpose of the report is to set out the PCC'S decisions in respect of:
 - Approving the revenue budget and policing precept for 2016/17
 - Approving the capital budget for 2016/17
 - Approving the revised revenue & capital budgets for 2015/16
 - Approving the medium term financial plan
 - Considering the robustness of the estimates and adequacy of reserves.

Background

2. The final financial settlement for 2016/17 (received 3rd February 2016) announced a reduction in core Government funding to Police Forces of 0.53% when compared to 2015/16
3. The Medium Term Financial Plan in Appendix 2 outlines estimated future years' funding levels. Whilst a balanced budget for all 4 financial years can be achieved, this is dependent upon the funding levels from Central Government reducing by only 1.3% in future years.
4. The Home Office have already announced that they are reviewing the police funding formula allocation between Forces for 2017/18 onwards. We believe, based on exemplifications published previously, that Durham could potentially lose up to £10m per annum from the changes. We have established a range of options for managing such a reduction.
5. Whilst recognising the impact of any increase in Council Tax on the finances of households in County Durham and Darlington, in view of the future budgetary challenges referred to above, it is the view of officers that it is more important than ever, so far as is possible, to protect the base budget by increasing the Council Tax.

Budget 2016/17**Provisional Grant Settlement**

6. The final Local Government Finance Settlement, together with the Police Grant Report for 2016/17 has now been received and mirrors the provisional settlement which was issued on 17th December 2015. Central funding for 2016/17 has been set at £85.783m, a decrease of £0.457m (0.53%) compared with the 2015/16 figures. The table shows the Constabulary's assumption of the anticipated fall in central government funding in future years compared to the current year:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Police Grant	42,954	42,709	42,154	41,606	41,066
DCLG General Grant	37,176	36,964	36,484	36,010	35,542
Legacy Council Tax Freeze Grants	6,110	6,110	6,031	5,953	5,876
Central Gov't Funding	86,240	85,783	84,669	83,569	82,484
Reduction in Funding	4,314	457	1,114	1,100	1,085

7. The government has announced the 2016/17 Council Tax capping criteria at 2%. The PCC has decided, following public consultation, to increase Council Tax by 1.98%.
8. Every 1% variation in the Band D Council Tax affects the Council Tax Requirement by £0.26m. A 1.98% increase in Council Tax, which is the maximum increase avoid a referendum, would result in an increase to the base budget of £0.52m for every year in the future. This would increase the Band D precept from £162.73 to £165.95 per annum, an increase of £3.22 per annum which is 6p per week. The impact on the majority of households in County Durham and Darlington which are Band A properties, would be an increase of £2.14 from £108.49 to £110.63 per annum, which is equivalent to 4p per week.
9. The Government has created a number of 'top sliced' funding streams as follows:
- Counter terrorism
 - Firearms
 - Efficiency
- The Force is yet to receive details of its allocation for these streams.
10. Police capital grant has reduced by 40%. This will reduce capital grants by £0.39m which can be financed by revenue contributions to capital in order to maintain investment in new assets.

11. The Force has budgeted for £1.7m each year for the introduction of the single tier pension.

Savings 2016/17 to 2019/20

12. The medium term financial plan indicates the projected revenue and capital expenditure positions for the next four years.
13. The Medium Term Financial Plan (Appendix 2) shows a balanced budget for 2016/17 and future years assuming that the funding allocation does not change significantly in 2017/18. Appendix 2 shows the main assumptions used, which are considered reasonable.
14. Over the medium term, officer numbers are expected to fall in 2016/17 by 50 before rising back up to 1200. PCSO numbers are expected to increase by 15 up to 170 which is a similar level to that which existed pre-austerity. The Force expects to lose approximately 30 police staff roles in 2016/17 before stabilising. However, these figures may change depending upon the funding formula review.

2016/17 Council Tax Requirement

15. The ‘*council tax bases*’ of Durham County Council and Darlington Borough Council are used to calculate the proportion of the PCC’s total precept levied on each Council. The tax base is the estimated full year equivalent number of chargeable Band D dwellings with two or more liable adults and in respect of which tax will be received. The ‘*council tax bases*’ for 2016/17, determined by the relevant authorities and notified to the Police and Crime Commissioner, are as follows:

Council	Notified Council Tax Base
Durham County	133,892.40
Darlington	31,739.60
Aggregate Council Tax Base	165,632.00

16. The Basic Council Tax for the Office of the Police and Crime Commissioner (OPCC) is calculated by dividing the precept by the aggregate of tax base.

$$\frac{\text{Council Tax Requirement}}{\text{Aggregate Council Tax Base}} = \text{Basic Council Tax (At Band D)}$$

17. A 1.98% increase in Band D Council Tax would result in a budget of £113,988,020.

	£	£
PCC's Budget Requirement (based on an increase in Basic Council Tax of 1.98%)		113,988,020
Less:		
Specific Grant	42,708,582	
Re-distributed Non-Domestic Rates	36,963,684	
Legacy Council Tax Grants	6,110,124	
		85,782,390
		28,205,630
Less:		
Estimated overall net surplus on Collection		
Funds at 31 st March 2016		719,000
Council Tax Requirement		27,486,630

This would mean a council tax of:

$$\frac{\pounds 27,486,630}{165,632} = \pounds 165.95$$

18. The PCC has decided that the Council Tax Requirement be set at a level that results in a 1.98% increase in Band D Council Tax for the year ending 31st March 2017 and
- That in determining the Council Tax Requirement, the PCC notes the PCC Chief Finance Officer's report on the robustness of the estimates and the adequacy of reserves and risks in the budget and is attached as Appendices 3 and 4.
 - The 'council tax base' for the whole of the Force area of County Durham and Darlington will be 165,632.
 - The 'basic amount of council tax' be £165.95 and the amount of council tax for each category of dwelling be as follows:

Valuation Band	(Proportion of Basic Amount)	Council Tax 2015/16
		£
A	(6/9)	110.63

Valuation Band	(Proportion of Basic Amount)	Council Tax 2015/16
B	(7/9)	129.07
C	(8/9)	147.51
D	(<i>'basic amount'</i>)	165.95
E	(11/9)	202.83
F	(13/9)	239.71
G	(15/9)	276.58
H	(18/9)	331.90

- The Budget Requirement be £113,987,954 and that after taking account of Police Specific Grant of £42,708,582 Re-distributed Non-Domestic Rates of £36,963,684 and Legacy Council Tax Grants of £6,110,124, precepts totalling £27,486,564 be issued to Authorities as follows:

Council	Council Tax Base	Precept (£)
Durham County	133,892.40	22,219,443
Darlington	31,739.60	5,267,187
	165,632.00	27,486,630

19. Precept Instalments: Discussions with the Treasurers of the Collecting Authorities have taken place, and the dates for the payment of the precept in ten equal instalments are as follows:

(a) **Durham County Council**

- 1 April 2016
- 4 May 2016
- 3 June 2016
- 5 July 2016
- 5 August 2016
- 6 September 2016
- 7 October 2016
- 7 November 2016
- 8 December 2016
- 9 January 2017

(b) **Darlington Borough Council**

- 20 April 2016
- 26 May 2016
- 1 July 2016
- 5 August 2016
- 12 September 2016
- 17 October 2016
- 21 November 2016
- 28 December 2016
- 2 February 2017
- 9 March 2017

Level of Financial Reserves

20. To ensure ongoing financial viability it is important that the Police & Crime Commissioner continues to maintain a suitable level of reserves. Whilst there is no general guidance on what represents a suitable level of reserves in percentage terms, it is important to take into account the various risks to be faced when coming to a view on reserve levels. It is the view of Chief Finance Officer (for the PCC and Chief Constable) that general reserves should not be used to support day to day expenditure given: the level of funding uncertainty in future years (where the grant allocation has not been confirmed by the Home Office); localisation of council tax benefit; rising costs and council tax capping limits. Reserves should only be used to invest in capital expenditure or invest in expenditure which will lead to clear efficiencies.
21. The current policy statement on the level of reserves includes the following:
- The Police & Crime Commissioner will set aside sufficient sums in earmarked reserves as it considered prudent to do so. The PCC Chief Finance Officer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police & Crime Commissioner.
 - The Police & Crime Commissioner will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates which are currently about £4.560m and £5.699m respectively (based on 2016/17 revenue funding of £113.989m) subject to an annual review by the PCC Chief Finance Officer as part of the budget process.
22. The following tables show the estimated movement in financial reserves over the period to 31st March 2017 assuming a 1.98% Council Tax increase for 2016/17. The Capital Modernisation reserve was used to partly clear the LGPS deficit in 2015/16.

Financial Reserves	Balance at 31/3/15	Variation 2015/16	Estimated Balance 31/3/16	Variation 2016/17	Estimated Balance 31/3/17
	£'000	£'000	£'000	£'000	£'000
General	5,666	-	5,666	-	5,666
Usable Capital Reserve	154	-154	-	-	-
Capital Grants Unapplied	1,096	-1,096	-	-	-
Capital Receipt	-	-	-	75	75
Earmarked	11,165	-5,169	5,996	-	5,996
Total Reserves	18,081	-6,419	11,662	75	11,737

	31st March 2015 £'000	31st March 2016 £'000	31st March 2017 £'000
Capital Modernisation	6,628	1,875	1,875
Staff Pensions & Severance	1,760	1,760	1,760
Police Officer Pensions	676	676	676
PCC	581	581	581
Community Safety Reserve	268	268	268
Tactical Training Centre	121	121	121
NERSOU	84	84	84
Other	1,036	631	631
Usable Capital Reserve	154	0	0
Capital Grants Unapplied	1,096	0	0
Capital Receipt	0	0	75
General Reserve	5,666	5,666	5,666
Total	18,081	11,662	11,737

23. The expected use of reserves is as follows:

- £1.962m to fund capital expenditure in 2016/17
- £1.682m to fund capital expenditure in 2017/18
- £4.799m of reserves to partly fund the LGPS pension deficit payment of £7m in 2015/16

Key Risks

24. The following key risks with associated mitigating action and responsible persons are included within the medium term financial plan (see appendix 2 for more details):

- Revised allocation formula between Forces,
- An ageing estate portfolio putting increased pressure on facilities management budgets,
- Police officer capacity to respond to service demands,
- Flexibility to move police resources to areas of need,
- Demand continues to rise and change.
- Collaboration may require up-front costs of change,,

Cost Control

25. Given the continual impact of austerity, cost control is more important than ever. External audit review Value for Money arrangements each year and give the PCC and Chief Constable positive assurance in this regard. Internal audit also review financial controls and financial planning assumptions on a regular basis and their last report gave substantial assurance to the Chief Constable.
26. Specifically the following controls are in place:
- Monthly budget reviews are carried out in each Command
 - The Chief Finance Officer reviews the overall Force and PCC budgets each quarter.
 - Overtime is reviewed by the Force Executive and each Command monthly.
 - The Financial outturn is circulated at the Force Leadership Group
 - Detailed outturn reports are produced quarterly.
 - Experienced and qualified Finance staff work closely with the Commanders and Executive officers.
 - The Assistant Chief Officer chairs the Strategic Resource Group which controls overall officer and staff numbers to ensure they remain in line with budget.
 - Benchmarking is carried out regularly e.g. use of the VFM profiles and other external data.

Capital Budget 2016/17 and beyond**Prudential Code (including Treasury Management)**

27. Under the Prudential Code for Capital Expenditure, the PCC is free to make borrowing decisions according to what is affordable. The proposed capital programme for new starts and carry forward in 2016/17 totals £5.408m of which part could be met with a contribution from Capital Grants Unapplied. In order to reduce the impact on the 2016/17 budget, the Council Tax Requirement has been compiled on the assumption that capital receipts and a revenue contribution to capital will be used to finance the capital budget after taking account of capital grant. Technical recommendations relating to the Code are available upon request.
28. The Prudential Code for Capital Finance in Local Authorities was introduced with effect from 1 April 2004. The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the PCC are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
29. The 2015/16 capital programme is progressing. The revenue consequences of this programme have been taken into account in the 2016/17 budget and medium term financial plan. Certain projects are committed but not yet fully delivered and it is therefore necessary to allow a carry forward into 2016/17.
30. The PCC has agreed the carry forward of underspends on the 2015/16 capital programme. The multi-year capital plan is shown below:

	Outturn 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Expenditure					
Buildings: Major works	443	0	0	0	0
Buildings: Minor Works	621	150	150	150	150
Buildings carry forward from prior year	0	1,600	0	0	0
Vehicles	990	900	1,000	950	1,100
Vehicles carry forward from prior year	0	150	0	0	0
ICT	2,654	1,118	2,608	857	1,068
ICT carry forward from prior year	0	1,240	0	0	0
Equipment	510	250	250	250	250
Total	5,218	5,408	4,008	2,207	2,568
Funding					
Capital Grant	1,965	580	580	580	580
Special Grant	117	200	0	0	0
Capital Receipts	1,162	1,666	1,746	1,166	1,988

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Revenue Contribution	1,531	1,962	1,682	461	0
Strategic Reserve	0	0	0	0	0
Self-Financed Borrowing	443	1,000	0	0	0
Total	5,218	5,408	4,008	2,207	2,568
Capital Financing Costs					
Minimum Revenue Provision	655	653	421	668	659
Revenue Contribution	0	0	0	0	0
Contribution from Reserves	0	0	0	0	0
Interest Charges	26	250	280	280	280
Total	681	903	706	948	939

31. The capital budgets for 2017/18 onwards are provisional at this stage. The 2016/17 capital programme is considered to be both realistic and achievable.

Medium Term Financial Plan 2016/17 to 2019/20

32. The updated Medium Term Financial Plan is attached as Appendix 2.
33. Council Tax increases are assumed at 1.98% for 2016/17 and beyond.
34. The Local Government Provisional Finance Settlement provides details of formula grant levels for 2016/17. Settlement figures for 2017/18 onwards assume a 1.3% grant loss each year.

Recommendation

35. The Panel is recommended to consider the report.

G Ridley

PCC Chief Finance Officer

Appendix 1: Risks and Implications

Finance

These are contained in the main body of the report.

Staffing

The budgetary implications for staffing are dealt within the MTFP.

Equality and Diversity

N/A

Accommodation

The capital budget has implications for the way in which accommodation will be delivered in the future.

Crime and Disorder

N/A

Human Rights

N/A

Children's Act 2004

N/A

Stakeholder/Community Engagement

A number of public consultation meetings were held to invite views on budget setting and the level of precept.

Environment

N/A

Collaboration

A full and developing programme of collaboration is in place to effectively manage austerity. The Constabulary Programme Boards will oversee VFM and productivity in relation to the delivery of the 2016/17 budget.

Value for Money and Productivity

N/A

Other risks

N/A

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**Durham Police & Crime Commissioner
Medium Term Financial Plan
2016/17 to 2019/20**

Introduction

The prevailing national financial climate has transformed the way in which we perceive the delivery of public services. The Policing Service now has an imperative to evidence value for money and deliver a consistently high level of services with shrinking financial resources. The austerity measures are expected to continue until 2020.

This plan demonstrates in financial terms how the Police and Crime Commissioner (PCC) will strive to achieve his vision for policing in County Durham and Darlington. The plan provides an outline of the demands and consequential revenue resource requirements of the PCC and Constabulary for the four financial years commencing 1st April 2016. The plan also details the proposed five year capital programme and the revenue consequences of that programme.

Durham Constabulary has embraced a corporate scorecard approach called “Plan on a Page”. This strategic financial plan has been compiled in a way which reflects those strategic intentions and has been developed alongside the local Policing Plan.

The plan is owned by both the PCC and Constabulary. Individual and collective responsibility is exercised over the management of performance and resources. Governance arrangements are in place to ensure that the PCC holds the Constabulary to account through regular reporting of issues. Within the Constabulary, internal accountability meetings are regularly held to ensure objectives are met.

Purpose

The purpose of this financial planning document is to provide a basis for determining:

- The level of resources which are likely to be available in the future to deliver national and local priorities;
- The future demands upon the revenue budget;
- The impact of external factors;
- The financial implications of partnership working;
- The amount of capital investment which is required to achieve corporate objectives;
- The revenue consequences of such capital investment;
- The future reserve levels of the PCC;
- The impact of additional demands on the level of council tax levied by the Police & Crime Commissioner;

- The main financial risks facing the PCC and Constabulary.

Strategic Planning Principles

In constructing its financial plans the PCC benefits from following the principles below:

- *Ensure that finance contributes to improved outcomes by ensuring finance follows priorities.*
- *To ensure overall financial stability.*
- *Set a comprehensive, timely, balanced and realistic budget;*
- *Take into account pay and price inflation, risk management, and achievability of savings targets;*
- *Follow its treasury management policy;*
- *Follow its reserves policy;*
- *Raise awareness of and communicate key financial messages both internally and externally;*

The medium term financial plan has been compiled following the established principles that have been adopted by the PCC and within the following further conditions:

- *Budgets set will be affordable and not jeopardise the financial stability of the PCC in either the short or long term;*
- *Precept increases will be kept to a minimum consistent with the provision of effective and efficient services;*
- *All spending plans will need to demonstrate that they can achieve value for money and support best value principles;*
- *Spending will be agreed only when the necessary funding is identified and approved;*
- *External funding will be sought wherever it can be used in a sustainable manner that does not lead to unforeseen costs to the PCC;*
- *The PCC's finances will be publicised to stakeholders in an open and transparent manner;*
- *Customers and citizens will be involved in the budget process.*

Key Strategic Areas & Objectives

The approach to strategic planning is now shaped by the prevailing drive to demonstrate value for money in a time of reducing resources. The Constabulary has created a strategy map (Plan on a Page) based on a balanced scorecard approach. This has enabled colleagues across the Constabulary to understand how their activities link with and support delivery of the key outcomes required that will help to achieve the PCC and Constabulary's Vision.

The Vision:

“Durham Constabulary will deliver excellent policing inspiring confidence in victims and our communities by protecting neighbourhoods, tackling criminals, and solving problems around the clock.”

There are two key objectives that Durham Constabulary are focussed on delivering for the citizens of County Durham & Darlington:

Inspire Confidence in our Communities

Deliver High Satisfaction

The strategy map is structured into four key areas which enable the Constabulary to identify:

- What we need to be good at (Our Core Deliverables),
- What will help us to do it (Enabling Factors),
- How we will align our Resources,
- Use of Resources.

Each key area describes a number of strategic objectives that informs where the PCC and Constabulary need to focus their attention and resources. The process collects each strategic objective and identifies key linkages ensuring alignment to the corporate vision. The strategic objectives supporting each key area are:

- What we need to be good at (Our Core Deliverables):
 - Protecting Neighbourhoods,
 - Tackling Criminals,
 - Solving Problems,
- What will help us to do it (Enabling Factors):

- Provide effective and efficient response,
 - Manage and use our knowledge,
 - Effective Internal Communication,
 - Working together with others,
 - Reinforce an “Aiming for Excellence Culture”,
-
- How we will align our Resources:
 - Our Staff,
 - Our Staff,
 - Strategic Policing Requirement,
-
- Use of Resources:
 - Our Finance,
 - Continuous Improvement,
 - Performance Management Framework.

Revenue Expenditure

Police Service Funding

The final Local Government Finance Settlement, together with the Police Grant Report for 2016/17, will be agreed by the House of Commons in February 2016. It is anticipated that this final settlement will mirror the provisional settlement which was issued on 17th December 2015. Central funding for 2016/17 has been set at £85.783m, a decrease of £.457m (0.53%) compared with the 2015/16 figures. The table shows the anticipated fall in central government funding in future years compared to the current year as follows:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Police Grant	42,954	42,709	42,154	41,606	41,066
DCLG General Grant	37,176	36,964	36,484	36,010	35,542
Legacy Council Tax Freeze Grants	6,110	6,110	6,031	5,953	5,876
Central Gov't Funding	86,240	85,783	84,669	83,569	82,484
Reduction in Funding	4,314	457	1,114	1,100	1,085

As well as general grant, there will continue to be other specific grants.

Financial Planning Assumptions

The key income planning assumptions have been driven by funding announced in the provisional government figures and have been collated on a table and explained in detail in the previous section on police service funding.

The key expenditure related planning assumptions are reflected in the attached table

	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
Officer Pay Inflation (from September each year)	1%	1%	1%	1%
Police Staff Pension Contribution Increase	0%	1.5%	0%	0%
Staff Pay Inflation	1%	1%	1%	1%
Police Officer Vacancy Factor	0%	0%	0%	0%
Police Staff Vacancy Factor	2%	2%	2%	2%
Energy & Fuel Inflation	1%	1%	1%	1%
Other Non-Pay Inflation (except where contractually based)	0%	0%	0%	0%
Council Tax Increase	1.98%	1.98%	1.98%	1.98%
Other Income Inflation	0%	0%	0%	0%

Work Force Planning

The following table shows expected workforce numbers.

	2015/16	2016/17	2017/18	2018/19	2019/20
Officers	1,200	1,150	1,175	1,200	1,200
PCSOs	155	170	170	170	170
Staff	850	820	820	820	820
Total	2,205	2,140	2,165	2,190	2,190

These figures are kept under continuous review.

The reductions in officers and police staff numbers have been identified for 2016/17. Ongoing recruitment will be needed to ensure service delivery is maintained. Further information is contained within the detailed workforce plan.

NOT PROTECTIVELY MARKED

This table considers the impact of all the income and revenue assumptions and identifies the Budget 2016/17 for approval.

Budget Heading	Outturn 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
	£'000	£'000	£'000	£'000	£'000
Employees					
Police Officer Pay	60,953	61,508	61,317	61,769	62,029
Police Overtime	2,021	1,906	1,986	1,826	1,906
Police Staff Pay	35,692	30,549	31,132	31,482	31,803
Police Pensions	2,730	2,147	2,167	1,787	1,787
Other Employee Expenses	1,736	1,764	962	761	758
Total Employees	103,132	97,874	97,564	97,625	98,283
Premises	4,305	4,206	4,236	4,281	4,327
Transport Expenses	2,175	2,206	2,102	2,102	2,117
Supplies & Services					
Equipment	632	731	683	682	685
Stationery	405	213	213	213	213
Uniform	195	191	191	191	191
Doctors	1,458	1,507	1,475	1,499	1,523
Communications	1,890	2,077	1,890	2,149	1,597
Computing	2,747	2,405	2,376	2,423	2,298
Other Supplies	1,403	952	969	969	969
Total Supplies & Services	8,730	8,076	7,797	8,126	7,476
Air Support	529	529	459	459	459
Joint & Other Authorities	676	586	586	586	586
Forensic Science Services	900	926	826	826	826
<u>less</u>					
Income					
Customer & Client Receipts	(3,798)	(1,571)	(1,642)	(1,642)	(1,642)
Collaboration income	(1,345)	(1,438)	(1,438)	(1,438)	(1,438)
Secondment Income	(764)	(970)	(892)	(844)	(848)
Interest	(12)	(15)	(15)	(15)	(15)
Special Grants	(1,010)	(944)	(832)	(776)	(776)
<u>plus</u>					
Contribution To/ From (-) Reserve	(4,799)	0	0	0	0
Revenue contribution to capital	1,531	1,962	1,682	461	0
Capital Financing Costs	681	903	701	947	939
Police Constabulary Costs	110,931	112,330	111,134	110,698	110,286
Victims Commissioning Grant	(551)	(551)	(551)	(551)	(551)
Restorative Justice Grant	(140)	(140)	(140)	(140)	(140)

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

Budget Heading	Outturn 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
	£'000	£'000	£'000	£'000	£'000
PCC commissioning	692	692	692	692	692
Community Safety Grant	735	700	665	630	595
PCC Costs	963	958	958	958	958
Net Expenditure	112,630	113,989	112,758	112,287	111,840
Funded by					
DCLG Grant	<i>(37,176)</i>	<i>(36,964)</i>	<i>(36,484)</i>	<i>(36,010)</i>	<i>(35,542)</i>
Police Grant	<i>(42,954)</i>	<i>(42,709)</i>	<i>(42,154)</i>	<i>(41,606)</i>	<i>(41,066)</i>
Council Tax Support Grant	<i>(6,110)</i>	<i>(6,110)</i>	<i>(6,031)</i>	<i>(5,953)</i>	<i>(5,876)</i>
Council Tax	<i>(26,390)</i>	<i>(28,206)</i>	<i>(28,089)</i>	<i>(28,718)</i>	<i>(29,356)</i>
	<i>(112,630)</i>	<i>(113,989)</i>	<i>(112,758)</i>	<i>(112,287)</i>	<i>(111,840)</i>
(Surplus) / Deficit	0	0	0	0	0

Comment:

- The medium term financial plan figures are a best estimate at present due to uncertainties relating to allocation of funding amongst the Forces from 2017/18 onwards.
- The latest HMIC Value for Money Profiles has been used to identify areas for potential efficiency savings.
- A detailed workforce plan has been produced which compliments this plan.

Scenario planning

The medium term financial plan assumes a 1.3 % grant loss going forward beyond 2016/17. It is important the Constabulary has a contingency plan in place should grant loss be greater than this amount.

A separate report has been produced which outlines how a potential £10m funding reduction would be financed.

Capital Expenditure

The enclosed capital summary sets out proposed expenditure for capital projects for 2015/16 to 2019/20 and the associated funding options. The PCC received £968,108 in 2015/16 and expects to receive £0.581m in 2016/17. In future years it is estimated that £0.581m per annum will be received.

There are a number of options open to the PCC to funding capital expenditure and these include capital receipts, use of reserves or revenue contributions to capital. The balance of funding would be generated from borrowing which would incur

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interest charges at prevailing market rates (unless the PCC enters into specific term borrowing arrangements such as fixed interest rates over a fixed borrowing term).

The impact of any capital receipts generated from the sale of land owned by the PCC for development of commercial or housing purposes has been included in the funding at this stage. The first capital receipts from the sale of the old HQ site are expected in 2016/17 and will continue over a number of years.

Revenue Impact of the Capital Programme

The PCC can determine to meet part of the capital requirement through applying capital receipts, making revenue contributions, applying reserves, and/or (under the provisions of the Prudential Code) borrowing.

The associated future capital financing charges as a result of this provisional programme have been determined based upon the expected lifespan of the asset, generally as follows: Motor Vehicles (4 years); IT Systems (5 years); ANPR Equipment (10 years); Minor Building Work (20 years); Major New Buildings (60 years).

Grant is applied to those assets with the shortest lifespan. The capital receipts arising from the sale of the police headquarters' site have been used to partly fund the capital programme from 2016/17 onwards.

The following table contains a summary of capital expenditure by asset category. The capital financing charge from 2015/16 to 2019/20 has been affected by the application of the strategic capital reserve in 2014/15 to shorter life assets over those years.

	Outturn 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Expenditure					
Buildings: Major works	443	0	0	0	0
Buildings: Minor Works	621	150	150	150	150
Buildings carry forward from prior year	0	1,600	0	0	0
Vehicles	990	900	1,000	950	1,100
Vehicles carry forward from prior year	0	150	0	0	0
ICT	2,654	1,118	2,608	857	1,068
ICT carry forward from prior year	0	1,240	0	0	0
Equipment	510	250	250	250	250
Total	5,218	5,408	4,008	2,207	2,568
Funding					
Capital Grant	1,965	580	580	580	580
Special Grant	117	200	0	0	0
Capital Receipts	1,162	1,666	1,746	1,166	1,988
Revenue Contribution	1,531	1,962	1,682	461	0
Strategic Reserve	0	0	0	0	0
Self-Financed Borrowing	443	1,000	0	0	0
Total	5,218	5,408	4,008	2,207	2,568

Capital Financing Costs					
Minimum Revenue Provision	655	653	422	668	659
Revenue Contribution	0	0	0	0	0
Contribution from Reserves	0	0	0	0	0
Interest Charges	272	293	284	280	280
Total	927	946	706	948	939

The most significant capital expenditure is explained over the next few paragraphs and a table showing detailed planned expenditure between 2015/16 and 2019/20 is included at the bottom of this section.

Estates

The primary focus for the Estates programme will be the sale of the old HQ site and the resiting of the radio mast.

There will still be a regular buildings improvement and maintenance programme undertaken for the rest of the Estate.

Fleet

The fleet replacement programme is kept under constant review and it is planned to spend a relatively consistent figure each year on vehicles.

ICT

The ICT Strategy outlines the capital schemes to be delivered over the period covered by the plan. A large proportion of the ICT expenditure in the capital programme relates to the facilitation of Mobile data. Other key schemes are as follows:

- National requirement: All Forces must upgrade their emergency services communications.
- Business Applications: The primary costs over the next three years will be the continued consolidation of our business applications through the Red Sigma programme and implementation of a new Case & Custody system.

The following table includes details of new capital expenditure by asset category.

Planned Capital Expenditure from 2015/16 to 2019/20					
	Outturn 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
Property capital carry forward from prior year		1,600			
Major Works Projects					
New HQ	316				
Peterlee Warehouse	127				
	443	0	0	0	0
Minor Works Projects					
Newton Aycliffe Demolition	21				

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Planned Capital Expenditure from 2015/16 to 2019/20					
Darlington Backlog Maintenance	70				
Old HQ; sale of site	50				
Mast relocation	50				
Accommodation Improvements	308				
Custody Improvements	47	50	50	50	50
Legislative Compliance	75	100	100	100	100
Sub total	621	150	150	150	150
Motor Vehicles	990	900	1,000	950	1,100
Motor Vehicles carry forward from prior year		150			
ICT Capital carry forward from prior year		1,240			
National Requirements					
ESMCP			1,000		
Holmes V3		5			
National ANPR NAS		20			
Pegasus Replacement					100
Infrastructure Technology Refresh					
Desktop security	30			100	
Server & Storage Replacement	75	75	50		75
Airwave Radios	140				
Web E-mail Security Improvements				100	
ANPR infrastructure		101	58	82	18
ANPR BOF			175		
LAN Core Switch Refresh					150
WAN Hardware	120				
Review Storage Solution	175				
Review Fibre Switch Infrastructure	65				
Review Fibre Tape Libraries	61				
Projector Review/Replace	40				50
Public service network	210				
CAID	15				
Special branch network		20			
Remote access infrastructure					200
Switchboard Replacement				75	
SIP telephone delivery					75
Identity Management	13			200	
Digital Evidence					
Central 999 Recorders					100
Digital Interview Recorders			250		
Digital Witness Statements			75		
External CCTV Replacement			75		
Custody CCTV replacement		50			
Custody DVR Replacement	75				
Mobile Working					

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Planned Capital Expenditure from 2015/16 to 2019/20					
Mobile Data (Grant Funded)	250	300			
Expand Video Conferencing Lync - External Conference - Virtual Courts	15				
Client devices					
Body camera replacement			175		
Buildings ICT Infrastructure					
New HQ ICT Infrastructure	124				
Telephone System	36				
Business Applications					
Red Sigma	25	50	50		
Microsoft Licence Arrangements			300	300	300
Police Works	681	50	50		
GIS Replacement	50	120			
IT Service Management System		120			
Foreign National system	36				
Sundry	249				
Pegasus Upgrade/replacement	38				
Agresso	40				
TecSos	24				
Storm		200			
Website upgrade		7			
Origin / DMS	67		350		
Sub total	2,654	1,118	2,608	857	1,068
Equipment	510	250	250	250	250
Grand Total	5,218	5,408	4,008	2,207	2,568

Key Risks

The following are the key risks contained within the plan

Risk	Mitigating Action	Person Responsible
Loss of funding due to reallocation between Forces	<ul style="list-style-type: none"> Workforce planning to reduce officer/staff numbers Cost reduction plans to be developed and implemented Maximise precept income 	<ul style="list-style-type: none"> PCC Chief Finance Officer
An ageing estate portfolio putting increased pressure on facilities management budgets	<ul style="list-style-type: none"> Agree and deliver capital programme time 	<ul style="list-style-type: none"> PCC Chief Finance Officer / PCC

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Risk	Mitigating Action	Person Responsible
	<ul style="list-style-type: none"> • Effective project planning 	
Police officer capacity to respond to service demands	<ul style="list-style-type: none"> • Allocating resource to priority activities • Deliver agreed training programme. • Productivity measurement and management • Strategic Assessment agreed and implemented 	<ul style="list-style-type: none"> • Commanders/Exec
Flexibility to move police resources to areas of need	<ul style="list-style-type: none"> • Plan on a page promulgated across the organisation • Regular Force threat and risk meetings 	<ul style="list-style-type: none"> • Force Executive / Tasking & Coordination
Demand continues to rise	<ul style="list-style-type: none"> • Introduction of new Demand Management Command • On-going crime prevention/detection and problem solving initiatives. • Productivity measurement and management • Deliver agreed training programme 	<ul style="list-style-type: none"> • Heads of Commands
Collaboration may require up-front costs of change	<ul style="list-style-type: none"> • Identify 'invest to save' budget/reserve 	<ul style="list-style-type: none"> • PCC Chief Finance Officer/Exec/PCC

Monitoring and Review

This financial plan will be subject to continuous review and forms part of the overall planning processes within the OPCC and Constabulary. This will ensure that an accurate future financial forecast is maintained to give an indication as to the affordability of spending plans which in turn will be fed into the corporate planning process.

The content of this plan will be kept under review as part of normal medium term financial planning procedures.

Appendix 4

Purpose of Report

1. The purpose of this report is to provide the Police and Crime Commissioner (PCC) with reassurance and confidence in the accuracy and quality of the financial estimates for the years 2015/16 to 2019/20, and more importantly the budget for the coming financial year 2016/17.
2. The robustness of the financial estimates considers important factors such as risks facing the PCC and the adequacy of financial reserves to enable the PCC to have flexibility in dealing with any unplanned events that may have a significant financial consequence during the course of the budget year 2016/17.

Background

3. Police and Crime Commissioners and local authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services.
4. The decision on the level of the council tax must be taken before the coming financial year begins and that level cannot be changed during the year, so allowances for risks and uncertainties that may create an increase in service costs or a loss of income must be made by:
 - a. Making realistic and prudent allowances in the financial estimates for the policing services provided, and also,
 - b. Ensuring that there are adequate reserves in place that can be drawn on to help manage the impact of any incident or eventuality that causes the PCC to exceed the budget estimates in 2016/17 for the delivery of policing services to the community of County Durham and Darlington.
5. Section 25 of the Local Government Act 2003 requires that the PCC's Chief Financial Officer reports to the PCC when considering the budget and council tax on the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that the PCC will have authoritative advice available to him prior to making the budget setting decisions.
6. Section 25 also requires the PCC to consider this report when making decisions about the budget.

Critical Role of Risk Management

7. There is considerable (continuous) attention given to the risks facing the delivery of policing services in County Durham and Darlington. Each of the risks identified by the Force is allocated to and formally assessed by a strategic programme board.

8. When each board meets the risk registers are modified to reflect new risks, or to reflect the best available information and the impact of mitigating actions. The list of risks below have already been identified and considered by the appropriate board.
9. In setting the budget the risks facing the PCC are influenced by the uncertainties of the economic environment and the level of expenditure reductions in the Policing Service and the wider public sector, all of which present difficulties in delivering a balanced budget. The key risks have been identified in the Budget report.
10. The Annual Governance Statement gives assurance in relation to the organisation's arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.

Robustness of Estimates

11. The budget process has involved the senior leadership teams in each Command, who have considered and evaluated a variety of service delivery options that balance the twin needs of maintaining service delivery and balancing the budget.
12. These options, identifying areas where savings can be made to provide the resources to fund the unavoidable service pressures, have been reported to the PCC and his Executive, which includes the Chief Constable and the PCC's Chief Financial Officer.
13. The key income and expenditure related planning assumptions are reflected in the attached table

	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
Officer Pay Inflation (from September each year)	1%	1%	1%	1%
Police Staff Pension Contribution Increase	0%	1.5%	0%	0%
Staff Pay Inflation	1%	1%	1%	1%
Police Officer Vacancy Factor	0%	0%	0%	0%
Police Staff Vacancy Factor	2%	2%	2%	2%
Energy & Fuel Inflation	1%	1%	1%	1%
Other Non-Pay Inflation (except where contractually based)	0%	0%	0%	0%
Council Tax Increase	1.98%	1.98%	1.98%	1.98%
Other Income Inflation	0%	0%	0%	0%

14. In relation to the robustness of the above table, the following should be noted:
 - Pay inflation. The government has previously indicated that public sector pay rises should be limited to 1% pa. Therefore the assumption within the budget is reasonable. All police officer posts are budgeted for, therefore the police

office pay budget should not be overspent given that the force maintains a separate budget to fund medical retirements. In respect of police staff pay, a small vacancy factor is built in to the pay budget to reflect anticipated leavers during the year. In recent years neither the police officer pay budget nor police staff pay budget have been overspent.

- Energy and Fuel. Work is ongoing to reduce the number of vehicles within the force which will help to reduce the overall fuel budget. Therefore the 1% inflationary increase expected for fuel is reasonable. In relation to energy, the force maintains a £20,000 energy efficiency budget with which to reduce energy costs. Again, this budget is considered reasonable.
- Other non-pay Inflation. The 0% increase is a general provision. Whilst some budgets are reducing in price as a result of improved procurement and reduced demand it is equally valid to state that some budgets are under constant cost pressure. In recent years, supplies and services budgets have been underspent within the force.
- Council Tax. This will be subject to the maximum permitted limit by Central Government.
- Other Income Inflation. Where possible, the force is moving toward full cost recovery in terms of the supplies and services that it charges for. This will be subject to a discreet piece of work in the coming year. In recent years income budgets have been over-achieved therefore the budget estimates are considered reasonable.
- Officer numbers are based on actual salary levels and expected leavers. Police staff and PCSO numbers are also based on actual salary. This ensures that budgets are reasonable.

15. Given the uncertainty about the future resources available to the PCC at the time of preparing this report, the estimates beyond 2016/17 are at present set out with the best available information at the time of this report. There have as yet been no indications of 2017/18 funding allocation by the Home Office.

Adequacy of Reserves

16. The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and balances (LAAP Bulletin 77) to assist local authorities in determining the adequacy of reserves. This guidance is not statutory, but compliance is seen as best practice.

17. The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each Police and Crime Commissioner and local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.

18. The current policy statement on the level of reserves includes the following:

- a. The Police & Crime Commissioner will set aside sufficient sums in earmarked reserves as considered prudent to do so. The PCC Chief Finance Officer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police & Crime Commissioner.*

b. The Police & Crime Commissioner will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates currently £4.560m and £5.699m respectively (based on 2016/17 revenue funding of £113.989m) subject to an annual review by the PCC Chief Finance Officer as part of the budget process.

19. Earmarked reserves have been established as a means of building up funds to meet known or predicted requirements. The level of earmarked reserves will be in the region of £5.996m at the end of March 2016.
20. The General Reserve has been set just below 5% of the revenue funding for 2016/17 and will be £5.666m at the end of March 2016.
21. The reserves are set at a level to accommodate any significant financial impact on capital or revenue expenditure in 2016/17.
22. The PCC's approach to the management of risks alongside the PCC's financial management arrangements suggest that the level of resources identified in the Annual Budget 2016/17 is sufficient to provide reassurance and confidence in the delivery of policing services to County Durham and Darlington.

Recommendation

23. **It is recommended that the PCC acknowledges that the strength of the risk management processes, the adequacy of reserves and the robustness of the financial estimates give sufficient reassurance and confidence to enable him to approve the Annual Budget and the level of Council Tax for 2016/17.**